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| Meeting: | Cabinet |
| Meeting date: | Thursday 28 January 2021 |
| Title of report: | 2021/22 Capital Investment Budget and Capital Strategy Update |
| Report by: | Cabinet member finance and corporate services |

Classification

Open

Decision type

Budget and policy framework

This is a key decision because it is likely to result in the council incurring expenditure which is, or the making of savings which are, significant having regard to the council's budget for the service or function concerned. A threshold of £500,000 is regarded as significant.

Notice has been served in accordance with Part 3, Section 9 (Publicity in Connection with Key Decisions) of the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012.

Wards affected

(All Wards);

Purpose

To recommend to Council for approval the capital investment budget and capital strategy for 2021/22 onwards.

Appendix A provides details of the proposed additions to the existing capital programme that have been identified and the impact of approving these additions. Eleven capital investment budget proposals totaling £20.7m have been identified, to be funded by capital grants (£14.5m), redirected funding from revenue reserves (£1.0m), returns on capital investment (£0.4m) and prudential borrowing of (£4.8m).

In line with the Chartered Institute of Public Finance and Accountability (CIPFA) requirements a capital strategy has been written to reflect future direction for capital investment, the strategy is included at appendix D and in line with the guidelines requires Council approval.

Recommendation(s)

That: the following be recommended to Council

- (a) To approve the proposed capital programme from 2021/22 attached at appendix C; and**
- (b) approve the capital strategy document at appendix D.**

Alternative options

1. It is open to Cabinet to recommend alternative capital investment options to Council. No alternative options have been brought forward to date and suggestions would require review and assessment, in line with those completed on the options presented in this report. In addition, as an amendment to proposals put forward by Cabinet, any amendment would either require the consent of the Leader of the Council or further consideration by Cabinet, and scrutiny, before a decision could be taken in accordance with budget and policy framework rules.
2. A capital strategy is required in accordance with statutory guidance issued by CIPFA, discretion on content of the strategy but we have applied the guidelines within the draft.

Key considerations

3. The capital programme reflects capital investment generating benefit to the county for a period in excess of one year.
4. The current approved capital programme and forecast outturn is provided at appendix B. The profiling of capital spend and forecasting against budget is reported to Cabinet in the quarterly performance report which includes an up to date forecast of the timing of capital spend.
5. The approved capital programme has been updated to show changes to external funding secured for 2020/21 onwards. Since approval of the programme at February 2020 Council, an additional £13.59m has been added to the capital programme (some are reductions in assumed grant or virements of grant to fund other schemes), as follows:
 - a) £0.137m Department for Transport (DfT) awarded an Emergency Active Travel Fund to help enable the highways to be opened safely with covid measures in place for distancing.
 - b) £2.0m awarded by the LEP to enable the purchase of land to develop integrated wetlands to help improve phosphate levels and enable house building to progress
 - c) £0.424m additional grant for pothole repairs and to replace the challenge fund bids which was already estimated at £7.25m so the difference was added and a new line in the capital programme created.
 - d) (£0.013m) LTP project line reduced after funding allocated to SWTP project costs in 2020/21.

- e) £0.511m S106 additional funding drawn down from reserves to fund projects being delivered in 2020/21.
 - f) £0.546m additional schools maintenance award from the Department of Education to help relief the backlog of maintenance required.
 - g) £0.416m additional Disabled Facility Grant awarded in 2020/21, this grant contributes towards the costs of adaptations to allow disabled people to remain living in their own homes.
 - h) £0.195m Sustainable Landscape and Sustainable Places awarded by the Welsh Government for the Wye Valley AONB.
 - i) £5.432m Local Enterprise Partnership (LEP) grant award from the growth fund to help with further development of Hereford Enterprise Zone.
 - j) (£0.768m) Marches Renewable Energy Grant (MarRE) was awarded in 2019/20 for the next three financial years – this grant will be allow any eligible applicants to apply for a 50% grant for the new installation of eligible renewable technologies on their premises. This reduction is for the element managed on behalf of other councils that shouldn't be accounted for.
 - k) £0.48m Green Homes Grant – Local Authority Delivery awarded from Business, Energy and Industrial Strategy (BEIS).
 - l) £0.299m Environment Agency grant towards the Lea Flood Alleviation scheme.
 - m) £0.75m Towns Fund Accelerated Funding to deliver a number of city projects submitted to Ministry of Housing & Communities in Local Government (MHCLG).
 - n) (£0.341m) Sustainable Energy in Public Buildings reduction in grant for the element managed on behalf of other councils that shouldn't be accounted for.
 - o) £0.524m MHCLG grant awarded to deliver a homelessness hub and contribute towards the purchase of flats to help with provision for homelessness residents.
 - p) £3.0m award from the LEP for delivery of the Hereford City Centre Improvements projects approved by Council last year and enables a reduction of borrowing of £2.5m.
6. Further changes were made to the capital funding following decisions at Council to fund the priority flood works project of £4.027m and fund the non-insurable works at the leisure centre of £0.505m. The was reduced by £2.5m following the allocation of the LEP grant for the Hereford City Centre Improvements Project, so overall borrowing increased by £2.032m. The only other change is a reduction in the use of the capital receipts reserve of £1.053m for the Hereford Enterprise Zone project following the LEP grant award of £5.432m and therefore a reduction of the funding required by the Council.
 7. As part of the 2021/22 budget setting process, priority capital investment needs for 2021/22 have been identified.
 8. All proposals were submitted based on need, and are included in appendix A along with a description of what each proposal includes. There are a number of annual grants and allowance for the spending of S106 developer fees that have been included to reflect the income that will be received.
 9. Cabinet completed an informal review of all prospective capital funding requests and all were progressed and included in this report.
 10. The informal review was carried out to ensure all funding requests proposed were manageable within current borrowing limits in the existing medium term financial strategy and retains approximately £10.6m in the capital receipts reserve.

11. Latest assessment indicates a shortfall of around 4,000 social and affordable homes; the council intends to respond to this challenge by progressing plans to invest in developing additional genuinely affordable housing stock and retaining it in public ownership. These ambitions are for both the rental and shared ownership markets and to deliver 2,500 homes over the next 10 years.
12. This could lead to investing up to £100m in housing in the four years from 2022/23, it is anticipated that the income streams generated would cover the revenue costs of providing the housing including any borrowing costs. A recent Cabinet decision has chosen the model of managing the initial houses through the general fund and then creating a Housing Revenue Account.
13. In the revised capital programme the current Development Partnership budget in the capital programme has been split and £20m is now shown as a dedicated budget for Strategic Housing Development to cover the initial phases.
14. In the current capital programme in appendix B there are 2 separate projects, Ross Enterprise Park £7.07m and Employment Land & Incubation Space in Market Towns £13.631m. The Ross project has now been incorporated within the other project to create an overall project budget of £20.701m. A revised business case will be provided by June after the consultation carried out by Rose regeneration to propose the most economically viable projects to be delivered within the project budget and detail how the work will be funded.
15. From 2021/22 a £1m Development Fund budget has been proposed to be included in the capital programme. It will initially be funded from the finance resilience reserve but topped up each year when the developed project is added to the capital programme in line with the funding identified. This is to ensure projects are added to the capital programme when they have a robust business case including accurate costings and are deliverable within the timeframe.
16. Approval of provision in the capital programme is not an approval to proceed. Each project will be subject to its own governance and full business case before any spend may be incurred.
17. The capital strategy has been developed in accordance with CIPFA guidelines. The purpose of the capital strategy is to tell a story that gives a clear and concise view of how the council determines its priorities for capital investment, decides how much it can afford to borrow and sets its risk appetite. It should not duplicate other more detailed policies, procedures and plans but instead sit above these and reference these to allow those seeking more detail to know where to find it. That said it should provide sufficient detail so that it provides an accessible single source for the reader.

Community impact

18. In accordance with the adopted code of corporate governance, Herefordshire Council achieves its intended outcomes by providing a mixture of legal, regulatory and practical interventions. Determining the right mix of these is an important strategic choice to make to ensure intended outcomes are achieved. The council needs robust decision-making mechanisms to ensure our outcomes can be achieved in a way that provides the best use of resources while still enable efficient and effective operations.

19. The capital investment proposals support the overall corporate plan and service delivery strategies in place. The overall aim of capital expenditure is to benefit the community through improved facilities and by promoting economic growth. A specific community impact assessment, including any health and safety implications or corporate parenting responsibilities, will be included in the decision report required prior to any new capital scheme commencing and incurring spend.

Environmental Impact

20. Herefordshire Council provides and purchases a wide range of services for the people of Herefordshire. Together with partner organisations in the private, public and voluntary sectors we share a strong commitment to improving our environmental sustainability, achieving carbon neutrality and to protect and enhance Herefordshire's outstanding natural environment.
21. Whilst this overarching budget setting document will not detail specific environmental impacts, consideration is always made to minimising waste and resource use in line with the Council's Environmental Policy. A specific environmental impact assessment for the service specific budget proposals will be considered as appropriate to seek to minimise any adverse environmental impact and actively seek opportunities to improve and enhance environmental performance. An initial environmental assessment has been included in the outline business cases that were reviewed at Scrutiny and these will be developed and scoped for each project when they seek approval to spend and a separate governance decision.

Equality duty

22. Under section 149 of the Equality Act 2010, the 'general duty' on public authorities is set out as follows:

A public authority must, in the exercise of its functions, have due regard to the need to -

- (a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;
 - (b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;
 - (c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.
23. The public sector equality duty (specific duty) requires us to consider how we can positively contribute to the advancement of equality and good relations, and demonstrate that we are paying 'due regard' in our decision making in the design of policies and in the delivery of services. An equality impact assessment (EIA) will be carried out prior to any new scheme commencing and will form part of the approval process required ahead of incurring capital spend.

Resource implications

24. The proposed additions at appendix A total £20.7m over the next three years. Of this, £14.5m is proposed to be funded by capital grants, which consist of regular annual awards for local transport plan, schools maintenance and S106 developer contributions

already received. £1.0m is funded from redirected existing funding and no use of the capital receipts reserve. This leaves £5.2m requiring financing from prudential borrowing (PB). Of this the cost of financing £0.4m of prudential borrowing repayment costs will be funded from additional revenue streams from loan repayments, leaving additional costs of financing £4.8m prudential borrowing to be funded by the corporate revenue budget. Where projects are in the capital programme but they depend on grant, if the grant request is not successful, the full project including any match funding will be removed.

| Scheme | Capital Grant funding £000 | Redirected funding £000 | Capital receipt funding £000 | Funded by ROI £000 | Corporate Funded PB £000 | Total Request £000 |
|--------|-------------------------------|----------------------------|---------------------------------|--------------------|-----------------------------|-----------------------|
|--------|-------------------------------|----------------------------|---------------------------------|--------------------|-----------------------------|-----------------------|

Community:- Build communities to ensure everyone lives well and safely together

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|----------------------------|----------------|------------|------------|--------------|--------------|----------------|
| School Accessibility Works | 0.0 | 0.0 | 0.0 | 0.0 | 240.0 | 240.0 |
| Grange Court Loan | 0.0 | 0.0 | 0.0 | 359.2 | 0.0 | 359.2 |
| Schools Maintenance Grant | 1,195.0 | 0.0 | 0.0 | 0.0 | 0.0 | 1,195.0 |
| Childrens S106 | 300.0 | 0.0 | 0.0 | 0.0 | 0.0 | 300.0 |
| Total Community | 1,495.0 | 0.0 | 0.0 | 359.2 | 240.0 | 2,094.2 |

Economy:- Support an economy which builds on the county's strengths and resources

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|---|-----------------|----------------|------------|------------|----------------|-----------------|
| Estates Building Improvement Programme | 0.0 | 0.0 | 0.0 | 0.0 | 1,217.0 | 1,217.0 |
| Shire hall (include in estates programme) | 0.0 | 0.0 | 0.0 | 0.0 | 850.0 | 850.0 |
| Extra Ordinary Highways Maintenance, Biodiversity Net Gain & Winter Fleet | 0.0 | 0.0 | 0.0 | 0.0 | 2,299.0 | 2,299.0 |
| Capital Development Fund | 0.0 | 1,000.0 | 0.0 | 0.0 | 0.0 | 1,000.0 |
| Local Transport Plan | 12,272.0 | 0.0 | 0.0 | 0.0 | 0.0 | 12,272.0 |
| E & P Section 106 | 750.0 | 0.0 | 0.0 | 0.0 | 0.0 | 750.0 |
| Total Economy | 13,022.0 | 1,000.0 | 0.0 | 0.0 | 4,366.0 | 18,388.0 |

Environment:- Protect our environment and keep Herefordshire a great place to live

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|--|-----------------|----------------|------------|--------------|----------------|-----------------|
| Air Quality Monitoring Station Resource Improvements | 0.0 | 140.0 | 26.0 | 26.0 | 0.0 | 0.0 |
| Total Environment | 0.0 | 0.0 | 0.0 | 0.0 | 192.0 | 192.0 |
| Total | 14,517.0 | 1,000.0 | 0.0 | 359.2 | 4,798.0 | 20,674.2 |

25. The revenue implications of securing this new borrowing is supported in the current Medium Term Financial Strategy and Treasury Management Strategy which included an estimation of £6.7m new prudential borrowing per annum over the strategy period.

26. The additional borrowing requirement is reflected in an update to the Treasury Management Strategy as shown in the report appearing elsewhere on Council's agenda today with actual borrowing being secured, as cash funding is required at the optimal interest rate available at that time.
27. Individual capital scheme resourcing implications will be detailed in the approval to precede decision.

Legal implications

28. The council is under a legal duty to sensibly manage capital finance. The council is able to borrow subject to limits set by the council, any nationally imposed limits, and it must do so in accordance with the prudential code on borrowing.
29. The Local Government Act 2003 allows the council to borrow for any purpose relevant to its functions under any enactment and for the purposes of the prudent management of its financial affairs.
30. Full Council is responsible for adopting the capital investment budget (referred to above as the capital programme) for the next financial year. Local Authorities deliver a range of services some of which are required to be undertaken under statutory duties and others which are a discretionary use of statutory powers. Local Authorities powers and duties are defined by legislation. The Localism Act 2011 provides a General Power of Competence under Section 1, which provides local authorities with the power to do anything that an individual may do, subject to limitations. Capital expenditure is defined under the Local Government Act 2003. It is therefore not only schemes that are necessary for the council to meet its statutory duties, which can be approved. Any scheme must be procured in accordance with the council's own contract procedure rules and appropriate contractual documentation put in place to protect the council's interests.
31. Section 106 of the Local Government Finance Act 1992 precludes a councillor from voting on the Council's budget if he or she has an outstanding council tax debt of over two months. If a councillor who is precluded from voting is present at any meeting at which relevant matters are discussed, he or she must disclose that section 106 applies and may not vote. Failure to comply is a criminal offence.
32. In accordance with the budget and policy framework, rules in the constitution the general scrutiny committee shall inform and support the process for making cabinet proposals to Council. General Scrutiny Committee considered the capital investment budget at appendix A at its meeting on 15 January, as referred to in the consultees section of this report. As such, the proposals in appendix C and D have been developed in accordance with the constitution.
33. Cabinet shall have regard to scrutiny recommendations and the responses to the consultation as have been made to it in drawing up or amending draft proposals for submission to Council, and its report to Council shall reflect those recommendations, comments, and the cabinet's response to them.

Risk management

34. Monthly budget control meetings give assurance to the Chief Finance Officer on the

robustness of budget control and monitoring, to highlight key risks and to identify any mitigation to reduce the impact of pressures on the council's overall position for example through phasing of spend, identifying and securing scheme changes or alternative funding sources.

35. Capital projects inherently give rise to risks in their delivery, both in time and budget. Individual scheme reporting and associated project boards exist to mitigate these risks. Furthermore slower delivery than forecast can mean the strategic ambitions are not being met as planned. A review of capital processes has taken place and the recommendations to help mitigate scheme risks are in the process of being put in place once approved.
36. The proposed additions have been reviewed in relation to risks, both in deliverability, costs, impact and associated scheme interdependencies. The individual scheme detail of the risks will be provided as individual schemes progress to approval to deliver.

Consultees

37. Local consultation with parish and town councils, businesses and organisations was completed in November, 17 events were held with 96 participants. Responses supported:-
 - People said it was important to avoid short-termism
 - Working with partners was supported
 - Transferring assets to communities was supported
 - Discretionary services least valued were street lighting, archive services and parks and open spaces
 - Increasing charges for parking and cremation was least popular
 - People wanted a high quality service and Value For Money for social care
 - Use of technology was seen as both an opportunity and a threat to vulnerable residents
 - 45% of people thought the proposed council tax & social care precept increase of 4.99% was about right
 - Over 70% of people wanted to support households in financial difficulty
 - The majority said they would support a Herefordshire Community Lottery and Herefordshire Voluntary Community Contribution Scheme
 - Overall local priorities matched the council's priorities in the County Plan and Delivery Plan
38. An online public consultation was open between 18 December 2020 and closed on 8 January 2021 in the form of a Residents Survey and Organisation (business) Survey. The main focus of the consultation was on council tax setting and the savings that needed to be identified to enable a balance budget to be presented due to the current pressures.
39. However question 6 was focused on the highest priorities for investment. This question asked respondents to rank their top three priorities from the list in figure 4. The results are based on a weighted average of those responses.

There were three clear priorities for respondents to the residents' survey:

- Spend public money in the local economy wherever possible
- Ensure all children are healthy, safe and inspired to achieve

- Build publicly owned, sustainable and affordable houses
40. The top priority makes it clear that residents agree with the change in the capital strategy appendix D point 7.7 regarding local suppliers and looking at social benefits alongside value for money. In regard to the second highest there is currently £36.3m planned to be spent on schools in the next 3 years which is 12% of the planned spend. Along with £20m set aside for the third ranked priority to deliver housing.
41. The proposed capital investment budget additions were presented to children's wellbeing scrutiny on 12 January and general scrutiny committee on 15 January 2021. All proposals were supported at each of the meetings and no amendments have so far been made to the capital investment proposals.

Appendices

Appendix A - Proposed capital investment additions for 21/22

Appendix B - Current status of approved capital programme

Appendix C - Total proposed capital programme

Appendix D - Proposed Capital Strategy

Background papers

Capital Investment Proposals published at General Scrutiny on 15th January 2021